

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
AMATSI WATER SERVICES
COMPANY LIMITED**

**FOR THE YEAR ENDED
30 JUNE 2014**

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AMATSI WATER SERVICES COMPANY LIMITED FOR THE YEAR ENDED 30TH JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Amatsi Water Services Company Limited set out on pages 4 to 12, which comprise the statement of financial position as at 30 June 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 14 of the Public Audit Act, 2003.

Management's Responsibility for the Financial Statements

Management is responsible for preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's of Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with the International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Accuracy and Completeness of the Financial Statements

The financial statements provided for audit as at 30 June 2014 were not supported by primary records of accounts. The cash book, ledgers and trial balances were not prepared and made available for audit verification. Further, an amount of Kshs.2,907,724.00 from Water Services Trust Fund was omitted from the statement of cash flow. Furthermore, the cash flow statement also does not agree with the net cash increase of Kshs.92,965.00 when cast. In addition, contingent liability of Kshs.2,219,878.00 from an industrial court award was not recognized nor disclosed in the financial statements.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2014 could not be confirmed.

2. Unaccounted for Water

During the year under review, the Company produced 1,315,647.00 cubic metres (m)³ of water. However, out of this volume, only 777,977m³ was billed to consumers. The balance of 537,670 m³ or approximately 41% of the total water volume represented Unaccounted For Water (UFW) which is 18% over and above the allowable loss of 25% in accordance with the Water Services Regulatory Board guidelines. The UFW of 41% may have resulted in loss of revenue amounting Kshs.11,649,572.00. The significant level of UFW may negatively impact on the company's profitability and its long term sustainability.

3. Financial Performance

The Company posted a deficit of Kshs4,138,860.00 (2013:Kshs.8,550,239.00) thereby reducing the accumulated revenue reserve to negative Kshs.3,759,733.00 (2012/2013: Kshs.378,928.00). The company operated with an unfavorable cash flow position during the year under review and further it was unable to meet its obligations as and when they fell due.

Consequently, its continued operation depends on the support and good-will of Creditors and the County Government.

4. Unsupported Balances and Expenditure

The supporting documents for the following balances and expenditure were not availed for audit review;

Item	Amount (Kshs)
Trade and other Receivables	33,824,756.00
Trade and other Payables	33,677,223.00
Cash and bank balance	92,965.00
Share capital and share premium	129,400.00
Employment Costs	18,330,128.00
Government Grants	15,661,308.00
Employment Costs	11,045,620.00
Administrative costs	5,501,874.00
Production costs	13,897,271.00

Under the circumstances, the validity of the balances and expenditure could not be confirmed as at 30 June 2014.

5. Trade and Other Receivables

As similarly reported in 2011/2012 the trade and other receivables balance of Kshs.33,766,373.00 as at 30 June 2013 included debtors inherited from the Ministry of Water and Irrigation amounting to Kshs.7,945,528.00 which have remained outstanding for a long period of time. Although indications are that part of this amount may not be recoverable, no tangible action has been taken by the management to recover this amount.

In the circumstances, the full recoverability of the trade and other receivables balance of Kshs.33,766,373.00 as at 30 June 2014 could not be confirmed.

6. Trade and Other Payables

The trade and other payables balance of Kshs.33,677,223.00 as at 30 June 2014 included other payables of Kshs.23,585,127.00 for which the respective suppliers statements/invoices were not availed for audit review.

Further, trade and other payables balance also included customer deposits amounting to Kshs.10,092,096.00. However, the company does not appear to have

opened and operated a corresponding customer deposits bank account during the year as required by the service provision agreement. No explanation has been provided for this anomaly.

Consequently, it has not been possible to confirm the trade and other payables balance of Kshs.33,677,223.00 as at 30 June 2014.

7. Outstanding Audit Fees

Note 13 reflects Trade and Other Payables balance of Kshs.33,677,223.00 as at 30 June 2014 including audit fees amounting to Kshs.1,198,000.00 which have remained outstanding for 7 years. Further, a provision for the year has not been included in the balance. The company is therefore in breach of Section 19(1) of the Public Audit Act, 2003 which requires all State Corporations to pay for the costs of the audit services.

As a result, it has not been clear whether the company will pay off the payables balance of Kshs.33,677,223.00.

8. Late Submission of Financial Statements

The Public Audit Act, 2003 requires every state corporation to prepare and submit its accounts to the Auditor-General within three months after the end of each financial year to which the accounts relate. However, the financial statements of the company for the year ended 30 June 2014 were submitted on 24 October 2014 contrary to the statutory deadline of 30 September 2014. The Company was therefore in breach of the law.

9. Share Capital

The company's Share Capital of Kshs.100,000 divided into 5,000 shares of Kshs.20 each issued to the Defunct County Council of Vihiga (1,668), Municipal Council of Vihiga (1,666) and Town Council of Luanda (1,666) had not been paid for as at 30 June 2014.

Under the circumstances, it has not been possible to confirm whether or not the Company will meet its objectives as outlined in the Memorandum and Articles of Association.

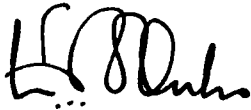
Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the audit, that;

- I. I have not obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit,
- II. In my opinion, proper books of account have not been kept by the Company, so far as appears from my examination of those books, and
- III. The Company's statement of financial position is not in agreement with the books of account.



FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

19 November 2015



AMATSI WATER SERVICES COMPANY LIMITED

P.O BOX 740-50300

MARAGOLI



TEL: +254 (0728-811-523)

EMAIL: amatsiwaterco@gmail.com

**THE ANNUAL REPORT AND
FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30TH JUNE 2014**

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**Amatsi Water Services Company Limited Annual Report &
Financial Statements For The Year Ended 30th June 2014**

PRINCIPAL ACTIVITY

The principal activity of the company is to provide water services as licensed under the Water Act.

REGISTERED OFFICE

Maji House

Opposite Vihiga District Hospital

P.O Box 740 – 50300

MARAGOLI

BANKERS

Kenya Commercial Bank

Mbale Branch

P.O Box 1123

MARAGOLI

AUDITORS

Kenya National Audit Office

Anniversary Towers- Nairobi

P.O Box 30084-00100

NAIROBI.

Tel no. 020-2227383

Kenya National Audit Office will continue to audit the company in accordance with the provisions of Article 229 of the constitution of Kenya.

Amatsi Water Services Company Limited Annual Report & Financial Statements For The Year Ended 30th June 2014

DIRECTORS

- Rev. Peter Adolwa - Chairman Board of Directors. (Appointed in July 2014)
- Mrs. Grace A. Idala - Director (Appointed in July 2014)
- Mr. Luke A. Andeka - Director (Appointed in July 2014)
- Mr. Isaiah Arula - Director (Appointed in July 2014)
- Mr. Boaz M. Amuhaya - Director (Appointed in July 2014)
- Chief Officer County Treasury Vihiga County - Director (Appointed in July 2014)
- Chief Officer Ministry of Environment, Natural Resources, Water & Forestry - Director
(Appointed in July 2014)
- Mr. Mr. Patrick Amoke - Ag. Managing Director. (Appointed in August 2012)

KEY MANAGEMENT STAFF

- Mr. Patrick Amoke - Ag. Managing Director
- Mr. Nelson Lumiri - Ag. Commercial Manager
- Mr. Naftali Agalomba - Ag. Technical Manager
- Mr. Evans Mugeru - Accountant
- Mr. Protus Wasike - Procurement Officer

Amatsi Water Services Company Limited Annual Report & Financial Statements For The Year Ended 30th June 2014


STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end for the financial year and of the operating results of the company for that year. It also requires the directors to ensure that the company keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes; designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial controls.

Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least the next twelve months from the date of this statement.

Managing Director


CHAIRMAN



Date

Amatsi Water Services Company Limited.
Financial Statements For The Year Ended 30th June 2014

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2014

	NOTES	2014 KSH.	2013 KSH.
Water Sales	2	23,854,988	26,911,096
Less: Production Cost	3	<u>28,505,822</u>	<u>25,598,249</u>
Gross Profit		<u>(4,650,834)</u>	<u>1,312,847</u>
Add: Other Incomes			
Government grants	4	14,062,534	17,598,622
Miscellaneous income		-	-
Total income		9,411,700	18,911,469
Less: Expenses			
Administration and Establishment Costs	6	9,501,668	12,499,510
Directors Emoluments	7	-	433,280
Finance Costs	8	128,927	57,615
Depreciation		-	-
Provision for bad debts		3,919,965	14,471,303
Total Expenditure		<u>13,550,560</u>	<u>27,461,708</u>
Excess of income over expenditure		<u>(4,138,860)</u>	<u>(8,550,239)</u>

Amatsi Water Services Company Limited.

Financial Statements For The Year Ended 30th June 2014

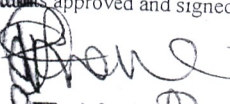
STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2014

	NOTES	2014	2013
		KSH.	
ASSETS:			
Non Current Assets			
Property, Plant and Equipment	9	-	-
Current Assets			
Inventory		-	-
Trade and Other Receivables	11	4,075,697	2,820,642
Cash and Bank balance	12	33,824,756	33,766,373
		92,965	(14,140)
		37,993,418	36,572,875
TOTAL ASSETS		37,993,418	36,572,875
LESS: CURRENT LIABILITIES			
Trade and other Payables			
Bank Overdraft	13	33,677,223	28,118,020
		33,677,223	28,118,020
NET ASSETS		4,316,195	8,454,855
FINANCED BY:			
Issued and Paid up share capital			
Share Premium	14	100,000	100,000
Revenue Reserve	15	29,400	29,400
Capital Reserve	16	(3,759,733)	378,927
Owners Funds	17	7,946,528	7,946,528
		4,316,195	8,454,855

The Accounts approved and signed on behalf of the Board of Directors on

Sign:

Name:


PATRICK D. AMOKE


AG, Managing Director.

2014 by;

Sign:

Name:

Director


PETER ADOLWA

Amatsi Water Services Company Limited.

Financial Statements For The Year Ended 30th June 2014

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30TH JUNE 2014

	2014 KSH.	2013 KSH.
Cashflows from Operating Activities		
Profit/(Loss) for the period	(4,138,860)	(8,550,239)
Adjustments for depreciation		
Add: Changes in Working Capital		
(Increase) in trade and other receivables	58,383	5,386,013
(Increase) in inventories	(1,255,055)	(1,255,055)
Increase in trade and other payables	(7,969,847)	(2,867,050)
Net Cash outflow from operations	(9,166,519)	1,263,908
Cashflows from Investing Activities		
Acquisition of Fixed Assets		
Cashflows from Financing Activities		
Proceeds from Share Capital		
Proceeds from Share Premium		
Proceeds from Customer deposits	278,000	245,000
Net Cash infows from Financing Activities	278,000	245,000
Cash and Cash Equivalent		
Net Increase in Cash at the beginning of the year	(8,888,519)	245,000
Net Increase/Decrease in Cash and Cash Equivalent	1,023,411	869,915
Cash and Cash Equivalent at the end of the year	(7,865,108)	1,114,915
	92,965	1,023,411

Amatsi Water Services Company Limited.

Financial Statements For The Year Ended 30th June 2014

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2014

	SHARE CAPITAL KSH.	SHARE PREMIUM KSH.	RESERVE KSH.	CAPITAL RESERVE KSH.	TOTAL KSH.
As at 1st July 2012	100,000	29,400	8,929,166	7,946,528	17,005,094
Excess of Income for the year	-	-	(8,550,239)	-	(8,550,239)
As at 30th June 2013	100,000	29,400	378,927	7,946,528	8,454,855
As at 1st July 2013	100,000	29,400	378,927	7,946,528	8,454,855
Excess of Income for the year	-	-	(4,138,860)	-	(4,138,860)
As at 30th June 2014	100,000	29,400	(3,759,933)	7,946,528	4,315,995

Amatsi Water Services Company Limited Annual Report & Financial Statements For The Year Ended 30th June 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2014

1 Significant Accounting Policies

a) Basis of accounting

The financial statements of Amatsi Water Services Company Limited have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The financial statements are prepared on the historical cost basis of accounting.

b) Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

c) Equipment and depreciation

Equipment is stated at cost or valuation, less accumulated depreciation.

Depreciation is calculated on the reducing balance basis, at mutual rates estimated to write off carrying value of the assets over their expected useful lives.

The annual depreciation rates in use are

Furniture and fittings	15%
Computers	30%
Water meters	12.5%

d) Impairment of assets

The carrying of the company's assets is reviewed at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the applicable asset's recoverable amount is estimated and an impairment loss is recognized in the income statement.

e) Inventory

Inventories are valued at the lower of cost and net realization value. Cost comprises of expenditure incurred in the normal course of business. Net realizable value is the price at which the stocks can be realized in the normal course of business. Provision is made for obsolete, slow moving and defective stocks.

f) Employment benefits

(Statutory pension obligation)

The company contributes to the National Social Security Fund (NSSF). Contributions are determined by local statute and are made per month.

The company's contributions to the above scheme are charged to the income statement in the year to which they relate.



AMATSI WATER SERVICES COMPANY LIMITED

TEL/FAX 056-51277

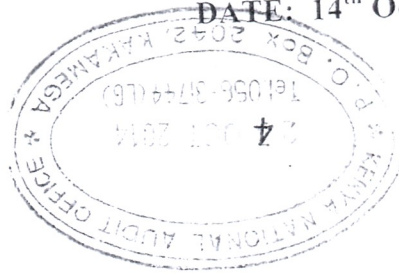
P.O. BOX 740 - 50300

When replying please quote

RE: AWASCO/FIN/GEN/1(62)

DATE: 14th October. 2014

The Auditor in Charge,
Water Boards and Companies,
KAKAMEGA



RE: AMATSI WATER SERVICES COMPANY LIMITED-FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2014 FOR AUDIT.

Attached hereon, kindly find seven copies of the above mentioned financial statements for your Audit.

Yours faithfully,


Patrick Amoke.

Ag. Managing Director.



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Amatsi Water Services Company Limited Annual Report &
Financial Statements For The Year Ended 30th June 2014

SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Employee entitlements

Employee entitlements to gratuity and longtime service awards are recognized when they accrue to the employee. A provision is made for the liability for such entitlement as a result of services surrendered by employees up to the balance sheet date.

The monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

h) Taxation

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits can be utilized.

i) Cash and cash equivalent

Cash and cash equivalents comprises of cash at bank and shorter deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalent comprise of cash and cash equivalents as defined above, net of bank overdrafts.

j) Trade and other receivables

Trade and other receivables are recognized at original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Amatsi Water Services Company Limited.
Financial Statements For The Year Ended 30th June 2014

	2014	2013
	KSH.	KSH.
2. Water Sales		
This involves amount billed from the five Water Schemes as under:		
Maseno Water Supply	6,807,883	7,990,919
Mbale Water Supply	7,882,429	10,532,191
Kaimosi Water Supply	5,057,782	4,509,334
Sosian Water Supply	2,468,515	2,326,399
Vihiga Water Supply	1,638,379	1,552,253
	23,854,988	26,911,096
3. Production Cost	13,897,271	15,300,818
Electricity	1,764,037	1,828,205
Chemical	10,433,670	10,274,558
Salaries for Production Staff	2,410,844	1,688,504
Operation & Maintenance	28,505,822	29,092,085
4. Government grants	8,296,340	13,534,636
Electricity paid by the Ministry	1,869,530	570,150
Chemicals received from the Ministry	3,896,664	3,493,836
Salaries for Ministry Staff on Secondment	14,062,534	17,598,622
5. Miscellaneous Income		
6. Administration and Establishment Costs	572,312	561,374
Security Services	89,980	248,672
Printing and Stationery	244,960	334,120
Telephone and Postage	-	220,765
Licences & fees	52,260	136,250
General Office Expenses	-	78,300
Advertisement	3,839,194	4,048,798
Salaries and Wages	135,600	136,100
N.S.S.F Deductions	618,640	1,653,850
Travelling and Subsistence	25,000	80,000
Staff Benevolent	173,550	527,839
Motor vehicle Expenses	306,449	561,656
Motor vehicle Fuel & Oils	5,000	333,600
Transport & Distribution	649,835	284,200
Revenue Collection Expenses	-	-
Gratuity	-	60,000
Legal fees	-	-

Amatsi Water Services Company Limited.
 Financial Statements For The Year Ended 30th June 2014

	2014 KSH.	2013 KSH.
Materials		
Water Abstraction fees	619,932	619,932
WASREB Regulatory fees	251,027	269,111
LVNWSB Levy	1,757,183	1,883,776
Software/Computer Expenses	19,720	380,868
Rent	76,500	24,000
Transfer Allowances	-	-
Education & Training	-	-
Recruitment Expenses	-	-
Electricity	62,726	52,486
Donations & Contributions	1,800	1,800
Audit fees	-	-
Consultancy fees	-	-
Repair & Maintenance	-	-
7. Directors Emoluments	9,501,668	12,499,510
Traveling and Subsistence	-	10,000
Training	-	-
Allowances	-	303,280
Honorarium	-	120,000
8. Finance Costs	-	433,280
These are commission charges on bank transactions	128,927	57,615
	128,927	57,615
9. Depreciation		
10. Property, Plant & Equipment		
11. Inventories	4,075,697	2,820,642
	4,075,697	2,820,642

Amatsi Water Services Company Limited.

Financial Statements For The Year Ended 30th June 2014

	2014 KSH.	2013 KSH.
12. Trade and other Receivables		
Bal. b/f	33,766,373	44,217,076
Receivables for the year	23,854,988	26,911,096
Collection for the year	(19,876,640)	(22,890,497)
	37,744,721	48,237,675
Provision for bad debts @10%	3,919,965	14,471,303
Receivables C/D	33,824,756	33,766,373
13. Trade and other Payables		
Trade payables	23,585,127	22,355,718
Audit fees	-	1,198,000
Customer deposits	10,092,096	7,403,452
	33,677,223	30,957,170
14. Share Capital		
Authorised and Issued 5000 ord. shares @ Ksh. 20	100,000	100,000
15. Share Premium		
5000 Ord. shares issued at premium of Ksh. 5.88	29,400	29,400
16. Revenue reserves		
These are accumulated excesses of income over expenditure		
Bal B/f	-	8,929,166
For the year	(4,138,860)	(8,550,239)
As at 30th June 2013	(4,138,860)	378,927
17. Capital reserves		
These constitutes debtors inherited at the commencement of of the company	7,946,528	7,946,528

18. Currency

These financial statements have been presented in Kenya Shillings.